

AMERICAN GOVERNMENT
AND POLITICS TODAY 2015-2016 EDITION



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Chapter Sixteen

Economic Policy

Learning Outcomes

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- 16.1 Explain how the financial crisis that began in 2008 has affected a range of national and state policies and how it is having a long-term impact on the lives of citizens.
- 16.2 Define fiscal and monetary policy, and explain the tools used by the institutions of the national government to shape economic policy.
- 16.3 Discuss the annual deficit and the total national debt; explain the impact of these two concepts on American life and policies.
- 16.4 Compare progressive taxes and regressive taxes and explain the taxation systems used in the United States.
- 16.5 Define entitlement programs, and describe how these programs are related to economic policies.
- 16.6 Describe the role of the Federal Reserve Bank and its Board of Governors in influencing the economy.
- 16.7 Discuss the impact that exports and imports have on the American economy and how the World Trade Organization regulates trade.

Economic Policy

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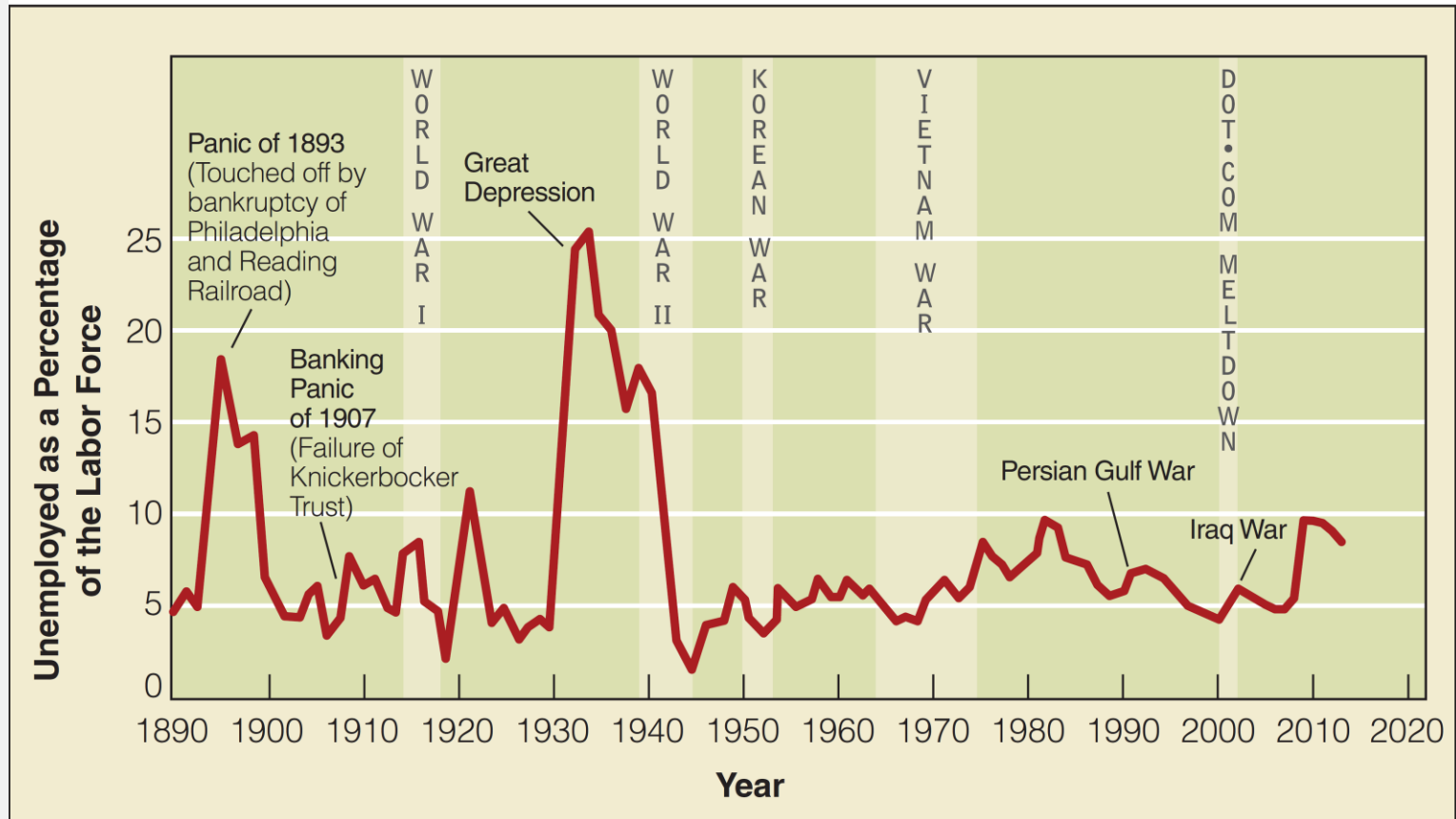
- Economic Recession of 2008
 - Due to complex set of political and economic decisions
 - Glass-Steagall Act
- Recovery
 - Emergency rescue packages
 - American Recovery and Reinvestment Act
 - Policy process slow and political

Prosperity Is the Goal

4

- Unemployment
 - Unemployment Becomes an Issue
 - Measuring Unemployment
 - Full Employment
- Inflation
 - Consumer Price Index

More than a Century of Unemployment



Prosperity Is the Goal

6

- The Business Cycle
- The Economic Toolkit
 - Fiscal Policy (federal government)
 - Monetary Policy (Federal Reserve)

Economic Theory Guides Policy

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- Laissez-Faire Economics
 - Adam Smith, *The Wealth of Nations*
- Keynesian Economic Theory
 - John Maynard Keynes
- Supply-Side Economics
 - Reagan administration

Fiscal Policy

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- Government Borrowing
 - Budget deficit
- Discretionary Fiscal Policy
 - Policymakers (Kennedy, G.W. Bush, Obama) apply Keynesian methods
- The Thorny Problem of Timing

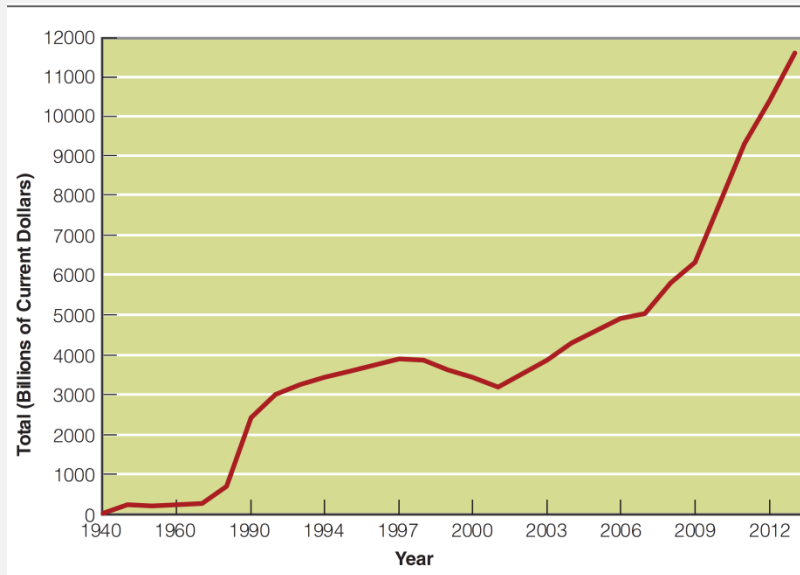
Fiscal Policy

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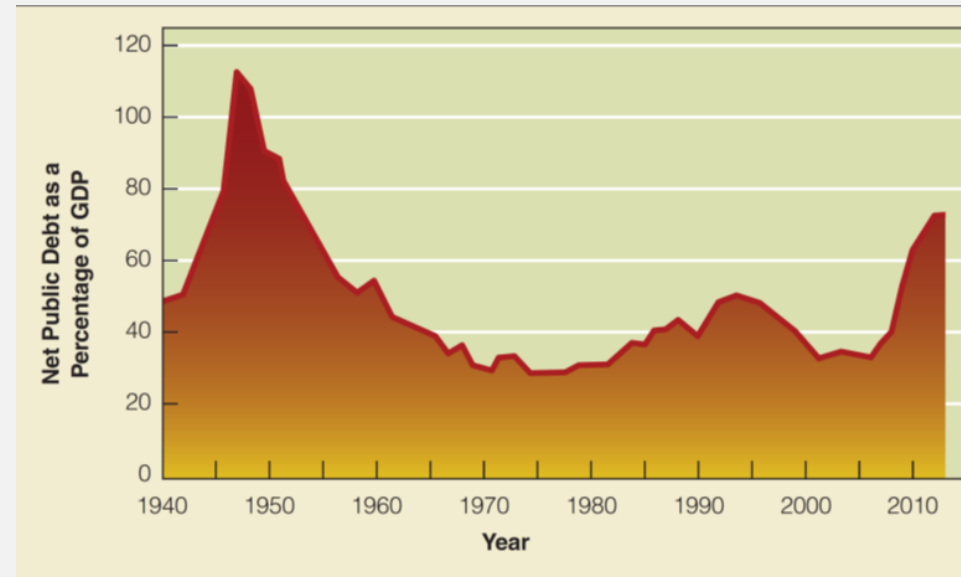
- Deficit Spending and the Public Debt
 - U.S. Treasury Bonds
 - About 50% of U.S. debt foreign-held
- The Public Debt in Perspective
 - Gross public debt
 - Net public debt
 - Gross Domestic Product

New Public Debt of the Federal Government (left) *and* Net Public Debt as a Percentage of the GDP (right)

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New Public Debt of the Federal Government



Net Public Debt as a Percentage of the Gross Domestic Product

The Politics of Taxes

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- Federal Income Tax Rates
- Loopholes and Lowered Taxes
 - Progressive and Regressive Taxation
 - Who Pays?
- Entitlements: The Big Budget Item
 - Guaranteed to recipients
 - Almost two-thirds of total federal budget

Progressive versus Regressive Taxes

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PROGRESSIVE TAXES

Federal income tax

State income taxes

Federal corporate income tax

Estate tax

REGRESSIVE TAXES

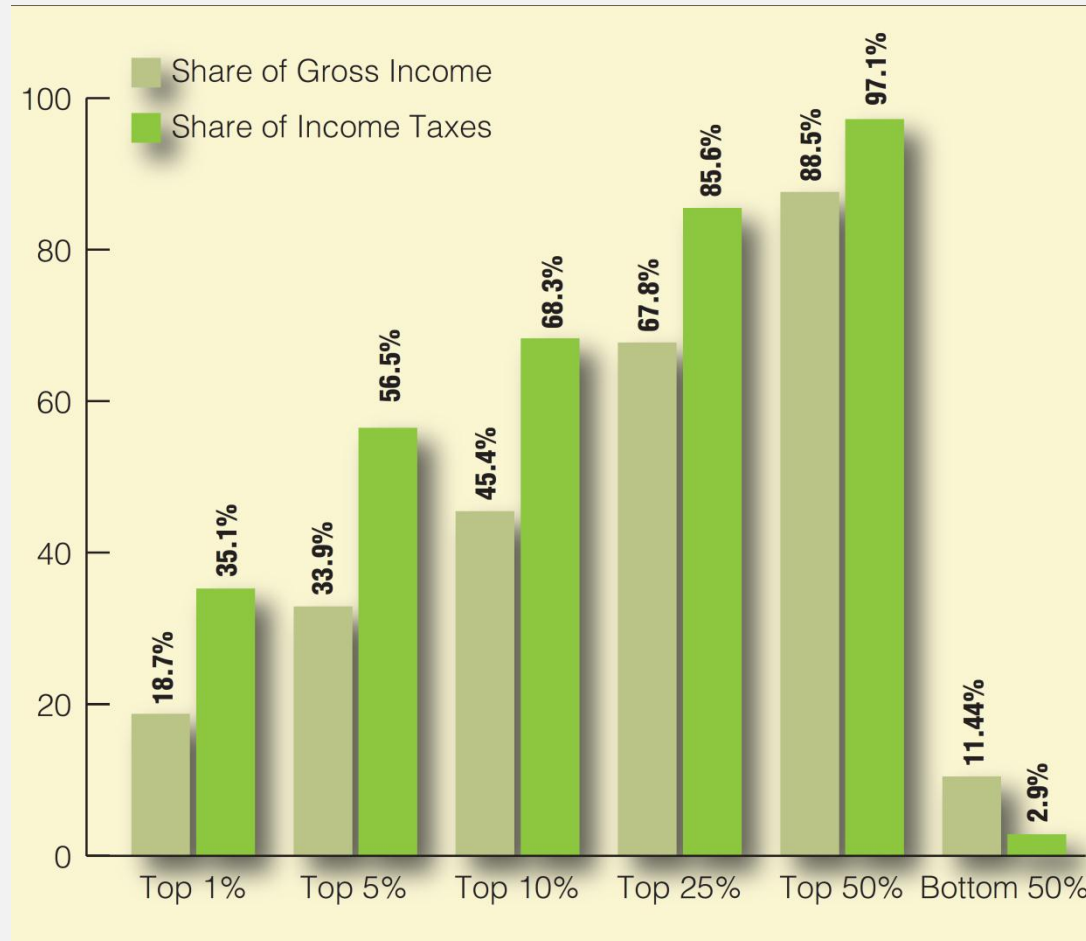
Social Security tax

Medicare tax

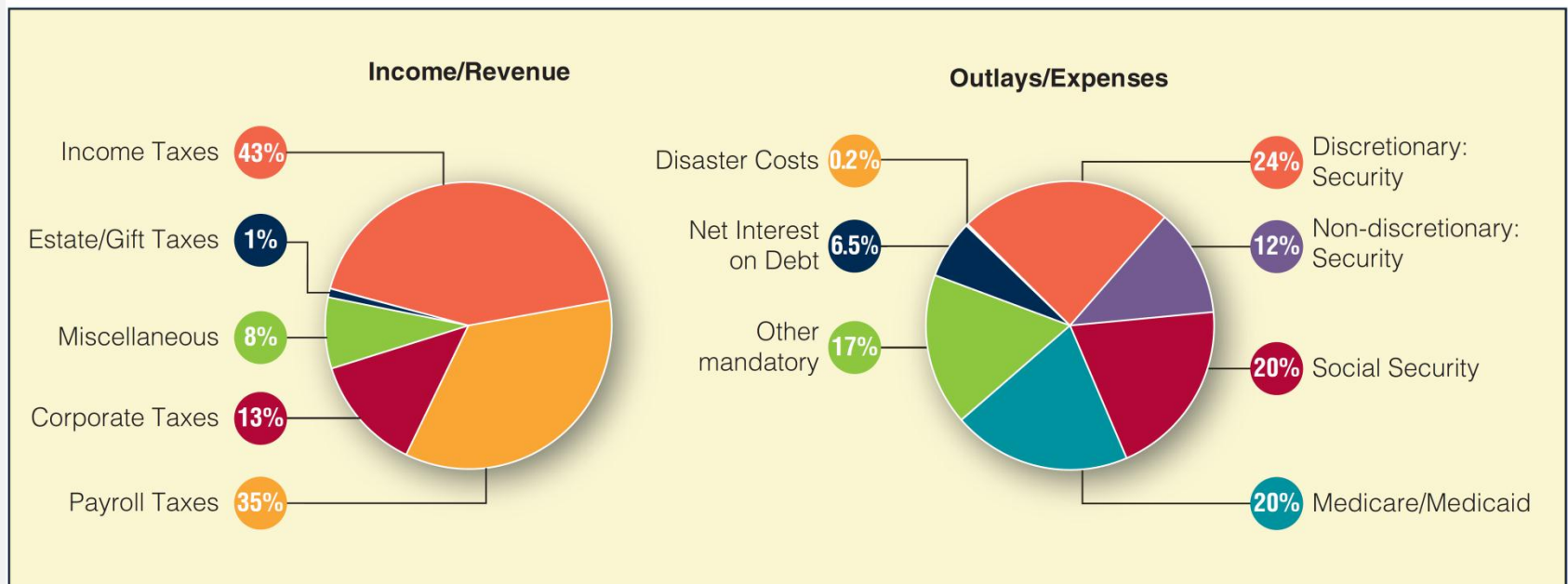
State sales taxes

Local real estate taxes

Federal Income Tax Burden by Income Group, 2013



Federal Income and Outlays for Fiscal Year 2012



Social Security and Medicare

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- Social Security Is Not a Pension Fund
- What Will It Take to Salvage Social Security?
 - Raise Taxes
 - Consider Other Options
 - Privatize Social Security

Social Security and Medicare

16

- Monetary Policy
 - Federal Reserve System
- Organization of the Federal Reserve System
 - Federal Open Market Committee

The Fed

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Janet Yellen was sworn in as the Chairman of the Federal Reserve in 2014. She is the first woman to have been named Chairman.



Zhang Jun/Xinhua Press/Corbis

Social Security and Medicare

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- Loose and Tight Monetary Policies
 - Time Lags for Monetary Policy
- Monetary versus Fiscal Policy

Globalization and World Trade

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- Imports and Exports
 - Balance of trade



YM YIK/EPA/Newscom

Globalization and World Trade

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- The Impact of Import Restrictions on Exports
 - Quotas and Tariffs
 - Free-Trade Areas and Common Markets

Globalization and World Trade

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Mexican trucks cross the border in California. Under a new program, Mexican trucking companies can operate in the United States without having to comply with American regulations. *Do you think this makes the roads unsafe?*

Globalization and World Trade

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- The World Trade Organization
 - What the WTO Does
- Sending Work Overseas
 - Offshoring or outsourcing

Political Fight Over Federal Minimum Wage

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The video player displays a presentation slide titled "CBO MINIMUM WAGE REPORT". The slide is divided into two main sections. On the left, there is a smaller slide titled "CBO The Effects of a Minimum Wage Increase on Employment and Family Income and Health Insurance" which features a line graph showing the percentage of workers in different income brackets. On the right, the main slide is titled "ESTIMATED EFFECTS ON EMPLOYMENT & INCOME" and lists three bullet points: "Federal minimum wage \$10.10", "16.5 million Americans get wage increase (avg/week)", and "900,000 workers lifted over poverty line". A fourth bullet point states "Could cost 500k jobs". At the bottom right of the slide, it says "Source: Congressional Budget Office". A play button is centered over the text "900,000 workers lifted over poverty line". The video player interface at the bottom shows a progress bar from 00:24 to 02:16, along with volume and full-screen icons.

[Click picture to view video](#)



Video Discussion Questions

1. Should government have the authority to establish a minimum wage? Why or why not?
2. Who are typical minimum wage workers? Who are their employers? Why might this cause job losses?
3. Is this plan an example of fiscal policy or monetary policy?